UNIVERSIDAD DE ESPECIALIDADES ESPIRITU SANTO

FACULTAD DE:
ECONOMÍA Y CIENCIAS EMPRESARIALES

TITULO:
EUROPE AND THE REFUGEE CRISIS: IMPLICATIONS OF IMMIGRATION IN THE EUROPEAN LABOR MARKET

TRABAJO DE TITULACIÓN QUE SE PRESENTA COMO REQUISITO PREVIO A OPTAR EL GRADO DE:
INGIENERÍA EN CIENCIAS EMPRESARIALES Y NEGOCIOS INTERNACIONALES

NOMBRE DEL ESTUDIANTE:
LUIS FELIPE PIEDRA RODRÍGUEZ

NOMBRE DEL TUTOR:
JOSÉ NOBOA SÁNCHEZ

SAMBORONDÓN, OCTUBRE, 2016

Luis Felipe Piedra Rodríguez

Universidad Espíritu Santo, luisfepiedra@uees.edu.ec, Facultad de Economía y Ciencia Empresariales, Edificio F, Universidad Espíritu Santo, Km. 2.5 Vía Puntilla Samborondón.

Abstract

This paper analyzes the effects of immigration, considering the current refugee crisis, in the labor market of the European Union. The paper surveys approaches and theories from different studies on economic impacts of immigration related to wages, unemployment, mobility, and workforce experience. Furthermore, the analysis considers two countries facing different economic realities within a set of variables, based on the approaches previously considered, to determine the impacts and effects immigration has brought to those specific economies. The results reveals that there is a negative effect of immigration on the short-run as public expenses increases, but in the long-run the economic impact will merely depend on the appropriate integration of immigrants and refugees into the labor market. In addition, we have that immigration had even more beneficial effects on wages of less educated workers in most developed countries. As a result, immigration reduced the wage differential between more and less educated natives.

Keywords: Immigration, Refugees, Unemployment, wages, public spending, labor market outcomes
Introduction

Contemporary Europe is marked by an economic and political crisis. In most of the affected countries, people have faced massive attacks on public services, wages, pensions, trade unions, and social rights. Mass unemployment is growing, and both in Greece and Spain youth unemployment has now passed 50 percent. In the European Union this is leading to more intense internal confrontations, both social and political (Wahl, 2014).

Additionally, besides the economic trauma Europe is facing with the current economic and financial crisis, further challenges are threatening the future of the European Union. Today, Europe faces the largest refugee crisis since World War II. Thousands of people, often entire families, try to escape from poverty and misery caused by the constant armed conflict in the Middle East. In 2015, more than a million migrants crossed into Europe, exacerbating the economic crisis as countries struggled to deal with the influx of refugees creating division among the EU members over how to deal on resettling people (BBC, 2016).

The Refugee Crisis is not only a political and financial aspect to consider, but social as well; aspect which in some occasions might push for some political resolutions that could be rushed. Implications on security and particularly economic repercussions are the main concern among Europeans. According to some studies, there is some fear among Europeans on job opportunities being reduced for native workers as the demand for a workplace grows as more immigrants come to a specific economy.
EUROPE AND THE REFUGEE CRISIS: IMPLICATIONS OF IMMIGRATION IN THE EUROPEAN LABOR MARKET

Thus, questions have arisen on how this will affect the EU economy as a whole. Despite the public perception on the negative effects of immigrants and refugees in the labor market, many authors have highlighted the economic benefits of migration for host countries.

This paper analyzes the impact of immigrants and the current refugee crisis on the European Union countries and how it has favored some economies as well. This paper is structured as follows: The first part gives a brief background of the financial and refugee crisis in contemporary Europe. The second focuses on the literature review, addressing some key concepts and theories about immigration and the labor markets. The third and fourth part of this paper analyzes two member countries of the EU within a set of variables describing its methodology and results respectively. Finally, the paper presents a discussion of the main results obtained and its conclusion.

Context

The economic situation in the European Union has generated a huge concern which, beyond the solutions suggested by some international organizations, it's costing a lot of effort to overcome. As the economy is still growing, it has put aside the fact that the EU is facing its slower growth since the early seventies.

To understand the causes of the current recession that the Eurozone is facing, we need to go back a few years ago. According to Ben Bernanke, the former head of the Federal Reserve, “September and October of 2008 was the worst financial crisis in global history, including the Great Depression” (Forbes, 2014). Some of the main
causes were related to the high prices of raw materials, food and energy crisis, the threat of a global recession, credit crisis and especially the real estate speculative bubble, which generated great distrust in markets worldwide, with its inevitable effects on employment, international trade and certainly in economic growth (The Economist, 2013).

The global economic downturn worsened with the financial crisis in the United States. Consequently, it spread to Europe due to the effects of globalization of financial markets. This brought serious consequences for the welfare of its people, because of the credit crunch, the fall of assets, the decline in world production, slow pace in international trade, large fiscal deficits, high debt and especially high unemployment rates.

In times of economic recession, labor contracts decrease and the number of unemployed increase considerably. In the European Union and the Eurozone, unemployment reached very high levels exceeding 12% in 2013, which led the European Commission to take action, seeking to promote employment especially in the younger population, which came to exceed 25% unemployment (Eurostat, 2016).

However, some of these labor market reforms have probably beginning to show some minor and positive results. According to Eurostat, between 2015 and 2016 the unemployment rate has fallen from 10.7% to 10.1% (2016). According to the European Commission, unemployment in the Eurozone should fall below 10% next year for the first time since 2009 (Kottasova, 2016). Still, many economists argue that the region has a lot of work to do. Today, besides the economic trauma Europe is
facing with the economic crisis, further challenges are threatening the future of the European Union.

One of these challenges is directly related to immigration and the current “Refugee Crisis”. Today, the world is experiencing the largest refugee crisis since World War II (Urban, 2015). Thousands of people, often entire families, try to escape from poverty and misery caused by the constant armed conflict in the Middle East. In 2015, more than a million migrants crossed into Europe, exacerbating the economic crisis as countries struggled to deal with the influx of refugees creating division among the EU members over how to deal on resettling people (BBC, 2016).

Although the number of refugees has decreased this year, this will continue to be a problem, especially for the most affected countries in Europe. According to the UN Refugee Agency (UNHCR) latest report, Greece, Italy, Hungary and Spain are the countries with the most arrivals by sea in 2016 (2016). Implications on security and particularly economic repercussions are the main concern among Europeans.

A study published in the website of the Pew Research Center in Washington DC, points that more than a half Hungarians, Greeks, Italians, Poles, and French think that immigrants will take away jobs and social benefits (2016). On the other hand, in countries like Germany and Sweden, at least half of the population says that immigrants represent an opportunity to make their nation stronger because of their work and talents (Wike, Stokes, & Simmons, 2016). According to Luca Visentini, General Secretary of European Trade Union Confederation, there is a mass of evidence to prove that migrant workers make a major contribution to host country economies. And yet Europe has closed its doors to refugees (2016). Provide job
opportunities to refugees who manage to cross European borders has been the primary challenge for host countries, which in turn some countries excuse on this factor to reject asylum claims as others, like Germany, works on getting migrants a job (Alderman, 2015).

Despite constant fears about the negative impacts of the influx of immigrants and refugees in the labor market, numerous studies have highlighted the economic benefits of migration for host countries. For instance, the International Monetary Fund (IMF) says that refugee influx could provide an economic boost to countries in the EU. Its latest report suggests that the arrival of refugees will have an economic impact in the short term in countries like Germany, Sweden, and Austria, which have received most of the refugees and have low unemployment rates (The Refugee Surge in Europe: Economic Challenges, 2016). In the medium and long run, the economic impact will depend on the appropriate integration of immigrants and refugees into the labor market. The authors stated that “Rapid labor market integration is key to reducing the net fiscal cost associated with the current inflow of asylum seekers. Indeed, the sooner the refugees gain employment, the more they will help the public finances by paying income tax and social security contributions” (Aiyar, et al., 2016, p. 5).

**Literature Review**

In order to present a theoretical basis to understand the effects of immigration on the labor markets with the current refugee crisis in Europe, first we need to
understand some key concepts such as the difference between an immigrant and a refugee in terms of their effect to the economy.

Then, for the purpose of this paper, we are going examine “The Labor Market Effects of Immigration and Emigration in OECD countries” by Docquier, Özden, and Peri (2011). This article simulates the labor market effects of immigration in different developed countries by using a database of migrants and an aggregate model of labor demand and supply.

Also, we are going to consider “The Labor Demand Curve is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market” by George J. Borjas (2003). Here the author develops a new approach for estimating immigration’s impact on labor markets by considering workers with similar levels of education but different levels of experience, and implying they’re not perfect substitutes as well. Also in this paper, Borjas questions the approach taken by previous studies and explain the main inconsistencies found in those frameworks.

Finally, in “European Immigration and the Labor Market” the author, Walter Nonneman (2007), deals with the general perception that immigrants tend rise levels of unemployment. This report examines various non-immigration factors such as native workforce mobility and weak policies taken by governments.

Definition of immigrant and refugee

The terms ‘refugee’ and ‘immigrant’ have been used sometimes in the wrong way by media or in public discourse which eventually leads to confusion. The UN Refugee Agency define a refugee as an individual or group of people fleeing armed
conflicts or persecution who crosses national borders to seek safety in nearby countries (2016). On the other hand, a migrant or immigrant is defined as an individual who not necessarily moves to another country forced by threat or persecution, but mainly to improve their lives quality by looking for work or education. Contrary to refugees, migrants do not face any impediment to return home (UNHCR, 2016).

Additionally, according to Jordi Bacaria, director of the Barcelona Centre for Internations Affairs (CIDOB), there are differences between immigrants and refugees to be considered in terms of their economic impact into the labor markets. First, in the case of refugees, the impacts on the social scope may be higher, since the perception of citizenship can associate the arrival of refugees to increased competition for subsidies and social benefits. Another difference aims to the fact that most migrants tend to be young people with certain level of education and entrepreneurship, while refugees are often entire families, with members of all ages and with a certain level of income that allows them to reach countries that have previously chosen and generally having a high level of human capital. However, considering the costs and benefits of immigration, the influx of immigrants and refugees into labor markets can be seen in much the same way (Bacaria, 2015, p. 13).

“The Labor Market Effects of Immigration and Emigration in OECD countries”

In this research paper, the authors propose a simple aggregate model of labor demand and supply to simulate the long run employment and wage effects of migration and immigration. The data collected distinguished between educated and
non-educated migrants from member countries of the Organization for Economic Co-operation and Development (OECD). Some of the countries considered include Germany, Belgium, France, Hungary, and Greece. Considering that these countries have been the main destination for the most recent world immigration wave, as stated by the European commission (2016), the authors analyze the effects on labor market with both flows, emigration and immigration, in order to determine if OECD countries should be concerned in either of them (Docquier, Özden, & Peri, 2011).

Also, the authors emphasizes the fact that immigrants can actually have a positive impact on wages and employment of those less educated through complementarity in a developed economy considering that migrants have a large share of college graduates. Furthermore, this research showed different scenarios when considering variations on the elasticity of relative supply and demand between more and less educated and also when considering natives and immigrants.

Without taking any sides on the current debate whether immigrants have a positive or negative effect on a specific economy, and taking the results based on multiple the simulations, the authors showed there is a positive relation of immigrant inflows on wages and employment for non-migrant natives. The main results of this research are the following:

1. Immigration had zero to small positive long-run effect on the average wages of non-migrant natives in all the OECD countries.

2. Immigration had even more beneficial effects on wages of less educated (non-college) workers in OECD countries. A corollary of this result is that
immigration reduced the wage differential between more and less educated natives.

3. Emigration, to the contrary, had a negative and significant effect on wages of less educated natives ranging. (Docquier, Özden, & Peri, 2011, pp. 3-4)

Additionally, Docquier made some corrections to determine the skill level of immigrants by considering additional data used for the different simulations. Further data includes illegal immigrants, potential downgrading of immigrants’ skills in different host countries, and also immigrants from non-OECD countries, who are generally represented as low skilled workers. Nevertheless, none of them changes or reverses the general results implied above.

“The Labor Demand Curve is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market”

In this research paper, Borjas starts by highlighting how the measured impact of immigration tend to fluctuate from previous studies providing mixed and confusing results. One of the causes indicates that some studies generally tend to “exploit the geographic clustering of immigrants and use differences across local labor markets to identify the impact of immigration” (Borjas, 2003, p. 3). Moreover, the author argues that one can make assumptions in determining whether immigration impacts directly on employment opportunities of native workers by considering the characteristics that can define a skill group of workers, such as education and work experience.
Among the main results from this research we have that, considering estimates gathered from price elasticity and the large influx of immigrants in recent decades, the author implies that immigration has substantially worsened the labor market opportunities faced by many native workers. Borjas concludes that:

Even after accounting for the beneficial cross-effects of low-skill (high-skill) immigration on the earnings of high-skill (low-skill) workers, my analysis implies that this immigrant influx reduced the wage of the average native worker by 3.2 percent. The wage impact differed dramatically across education groups, with the wage falling by 8.9 percent for high school dropouts, 4.9 percent for college graduates, 2.6 percent for high school graduates, and barely changing for workers with some college. (2003, p. 36)

However, the author also emphasizes that this analysis ignored aspects such as long-run capital adjustments induced by immigration and the possibility of high-skill immigration.

“European Immigration and the Labor Market”

In this report, Nonneman starts by pointing out the complexity of the labor market in European economies and how different factors such as level of wages, labor supply and immigration can affect the demand for workers. Focusing only on one factor, like immigration, to estimate changes on wages and employment levels might not represent the best outcome, since one would have to constantly consider changes and influence of other factors.
Furthermore, the author refers to the immobility of the European labor market as an opportunity for immigrants since they are more inclined to move to areas with more job opportunities and fill the labor market gaps in different occupations avoided by EU citizens. The main reasons of labor immobility across the EU are: culture, wage compression due to centralized collective labor agreements, and also housing policies. This last one includes people shedding benefits, such as tax breaks and premiums, when taking a job elsewhere, making people to think twice before moving to another region. “Immobility is definitely one of the salient features of the EU labor markets. As deep-rooted traditions and acquired privileges are at stake, it may be unrealistic to expect this immobility to change much” (Nonneman, 2007).

Methodology

In order to analyze the immigration’s effect on the economy, we will compare two countries with different economic realities, Germany and Greece. Within a time range of 10 years, 3 variables will be considered: Migration flows, unemployment rate, and the average monthly earnings of workers. The data will be mainly considered from the World Bank, Eurostat, OECD stats, the Federal Statistics office (Destatis), and Trading Economics.

Both countries will be compared on each variable in order to understand the impact of immigrant inflows and the measures that other countries from the EU should consider to adopt.
Results

Migration flows

According to the latest report from the Federal Statistical Office (Destatis), in 2015 Germany accounted its highest inflow of immigrants than ever before. In the reference year, Germany accounted for a total of 2,137,000 immigrants portraying an increase of 46% compared to 2014. Also in 2015, a total of 998,000 people decided to leave Germany, representing a 9% increase than in the previous year (2016).

Figure 1. Migration of foreign citizens between Germany and foreign countries 2006 to 2015 (Statistisches Bundesamt, 2016)

Considering the total of arrivals and departures of 2015, we have that Germany accounted a net immigration of 1,139,000 people, considered to be the highest in the history of the Federal Republic (Federal Statistical Office, 2016). Also, as shown in Figure 1, 2013 represented a breaking point for asylum seekers
applicants. Thousands of people from Syria, Afghanistan, Iraq, Kosovo, and Albania claim for asylum due to internal conflicts in their respective countries, being the armed conflict in Syria the main driver of migration. According to Eurostat, Germany registered the highest number of first time asylum applicant in the second quarter of 2016 with more than 186,000 applicants, which represents almost 60% of all applicants in the EU members (Eurostat, 2016).

On the other hand there’s Greece, which might not be the first option for asylum applicants due to its critical economic situation. According to the UNHCR, Greece was the country with the most refugee arrivals by sea in 2015 with 366,402 arrivals. As for the second quarter of 2016, Greece has registered a total of 169,458 arrivals by sea (UNHCR, 2016).

*Unemployment rate*

As for Unemployment, Germany recorded a 4.2% in august 2016, remaining unchanged from the July rate and compared to 4.5 percent a year earlier. Following the latest report from the Federal Statistical Office (Destatis), about 1.82 millions of persons were unepmoyed in august 2016 with a drop of 1.1% when compared to the previous year (Statistisches Bundesamt, 2016).
Greece reported an Unemployment rate drop from 24.8% in 2014 to 23.2% in July 2016, representing its lowest rate since 2012. The number of unemployed people in Greece fell by 0.5 percent to 1,120,843 compared to the previous month while employment went up by 0.4 percent to 3,703,828 (Trading Economics, 2016).

Average Monthly Salary

Monthly wages in Germany accounted for 3,695 EUR/Month in the second quarter of 2016. Figure 3 shows the trend difference between wages in Germany and Greece, which accounted for 1127.43 EUR/Month in January 2016. Greece has averaged a monthly wage of 1223.35 EUR since 2002 (Trading Economics, 2016).
Discussion

Based on the theories and approaches previously reviewed on the literature and the results obtained from the set of variables considered, we can infer that the inflow of immigrants can have an effect on a receiving economy either in positive or negative way. The effect will entirely depend on the actions and policies taken by the different countries on immigrants. For example, we have Germany, which is considered to be one of the most strong economies in recent years thanks to efficiency in the financial and labor markets and an improved macroeconomic environment as well (World Economic Forum, 2015). Thanks to this, Germany has been able to open its borders to immigrants and refugees. Nevertheless, as the inflows of immigrants and refugees keep growing, challenges for integration will grow as well.
Another reason for Germany’s “open door policy” to immigrants and refugees relies entirely in demographics. Germany is known to have one of the most rapidly aging populations and basically relies on immigration to impulse a growing workforce hole. “Migrants help to secure economic development and to stabilize the welfare system” said Martin Wansleben in an interview with Deutsche Welle (Ulric, 2014).

Taking into account the results on Unemployment and wages in Germany, one option for the country would be to continue attracting immigrants to its economy. With a high level of wages per month and a low unemployment rate, Germany might want to focus on young and skilled people able to work with certain level of education allowing them to fill work places stabilizing the state pension system as more Germans retire. Nevertheless, not every immigrant or refugee will always be a high-skilled worker, meaning that German policy makers will have to focus on integrating unskilled into the local labor force in a way that makes sense for a long-term growth.

On the other hand, Greece faces a completely different reality than Germany. Still facing a deep recession and far from a resumption of growth, the economy has continue to contract with an unpredictable future. Moreover, Greece’s national output was 1.4% lower in the first three months of 2016 than it was a year earlier and consumer spending was down by 1.3% (Elliot, 2016). Besides the amount of immigrants and refugees constantly arriving to Greece, emigration outnumbered the amount of immigrants in 2014 according to Eurostat (2016).
Considering the high unemployment rate and the low average wage registered in Greece as shown in Figure 1 and Figure 2 respectively, the government should focus on integration of refugees into the labor market. It’s true that the public perception on refugees is that most of them are low-skilled workers, but considering Greece’s economic situation, they might represent an opportunity to boost the economy. In the short-run there might be a small negative impact representing an increase in public spending. In the long-run low-skilled workers will be able to fill job places with low wages, create competiveness, pay taxes, and increase consumer spending.

Conclusions

The refugee crisis is just one of the prospects of a global problem with short and long term effects, requiring solutions to rise to the occasion to stop being a major risk to the economy. Indebted European economies like Greece need an injection of youth and dynamism. Many refugees are young people, which could represent positive implications for the European population in the labor markets.

Governments should also need to rethink the policies taken for immigrants and refugees as they play an essential role in the European labor market. Immigration has become unpopular to the public perception, associating them to low-skilled workers, representing adverse effects on the labor markets and the welfare system. Many authors argue that there should be selective labor migrant policies in order to fill the gap between high-skilled and low-skilled workers in a particular economy. However, these policies might be seen as discriminatory and create conflict among
minorities. Nevertheless, the debate on which policies should be taken on immigrants keeps open as governments design policies that ease the adjustment of local population to immigrant and refugees inflows.
Bibliography


